Standard Chartered

global market brief

This reflects the views of the Wealth Management Group

macro strategy | 23 October 2015

This is an abridged version of the Global Market Outlook. Please contact your Relationship Manager for the full version of the report.

On track for a better Q4

- **Equities rebounded strongly over the past month and may be on track for a seventh consecutive year of Q4 gains.** Both fundamentals and technicals are now increasingly supportive. We favour adding to Euro area and Japan equities (FX-hedged).
- **Recent data points to a mid-cycle slowdown, in our view, but nothing worse.** The implications – supportive policy and contained bond yields – mean we would not delay adding to diversified income exposure.

Looking back…

Markets rebounded sharply over the past month. Diversified income assets, high yield and Asian currencies also rose. A reversal of bearish positions and high cash levels likely contributed to the moves.

Looking forward…

Growth and policy (by the Fed, ECB, BoJ and PBoC) remains supportive for our preferred asset classes. Unlike the pessimists, we see recent economic indicators as evidence of a mid-cycle slowdown, not signs of a possible recession. Euro area and Japanese policymakers are likely to stay very supportive. Fed governors continue to emphasise the data-dependent nature of policy decisions, but a bias to raise rates means the USD is likely to stay well-supported until the first rate hike, at least, though the outlook is less certain thereafter. *(See page 3)*

This is a positive outcome for diversified income assets. One key implication is that government bond yields are likely to remain well contained in the US, Europe and Japan. We see value in US corporate credit across high yield and, increasingly, investment grade. Low yields are also a support for high-dividend-yielding equities. *(See pages 6-8)*

Euro area, Japanese and US equities should continue to perform through Q4. This month's sharp equity market rebound suggests the tailwind from seasonality may help equity markets deliver positive Q4 returns for a seventh consecutive year. In addition, significant cash remains on the sidelines while valuations remain cheaper than in the Q1, despite the recent rebound. *(See page 7)*

Asian equities face similar seasonal support, with Q4 returns averaging 4% over the past 15 years. Chinese (H-share) and Indian markets have tended to be the strongest performers, having performed well in most Q4 periods in the past 15 years. *(See page 7)*

Policy events at the end of October are key milestones. The Bank of Japan is likely to decide on whether to stimulate further while a Fed update is due at its month-end meeting. China policymakers also meet to announce its next five-year plan. *(See page 4)*

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Asset classes or strategies where we would add exposure today

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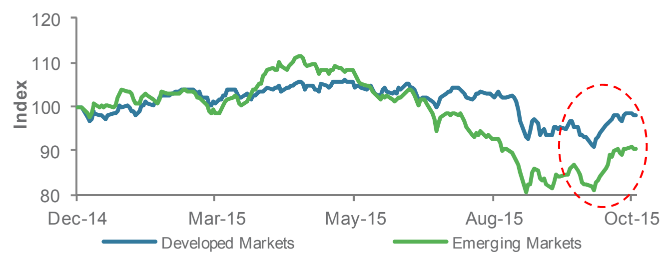
Equity markets rebounded sharply in October

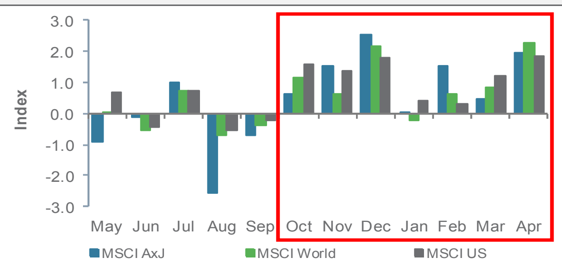
MSCI AC World, MSCI World, MSCI Asia ex-Japan Index



Source: Bloomberg, Standard Chartered

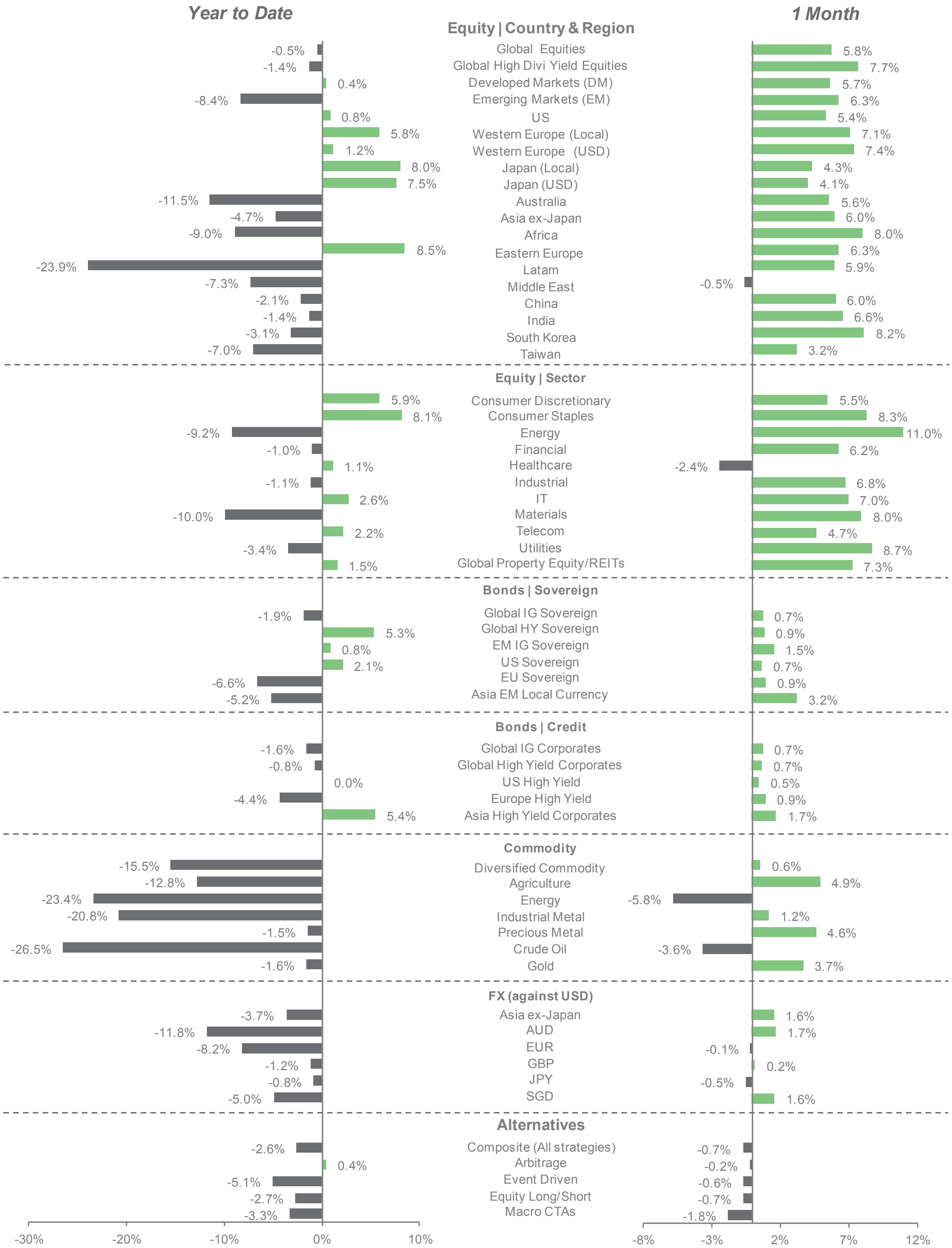
We have entered a seasonally positive period for equities

Average USD returns since 1995 (m/m)



Source: Bloomberg, Standard Chartered

Market Performance Summary (Year to Date & 1 Month)*



**All performance shown in USD terms, unless otherwise stated.*

**YTD performance data from 31 December 2014 to 22 October 2015 and 1-month performance from 22 September to 22 October 2015*

Sources: MSCI, JP Morgan, Barclays Capital, Citigroup, Dow Jones, HFRX, FTSE, Bloomberg, Standard Chartered

Investment Strategy

- **We still believe that concerns we are nearing the end of the cycle are overdone. Instead, a mid-cycle slowdown scenario appears more likely, which suggests US corporate credit spreads, in particular, offer value. More generally, this is a supportive environment for diversified income assets. We would not delay adding exposure.**
- **Supportive policymakers, seasonality and capped bond yields mean major equity markets may be on track for another strong Q4. Our comfort with this view has risen as markets have broken above key technical resistance thresholds (2040 on the S&P 500, 10,600 on the HSCEI).**
- **Rising risks of further policy easing in Japan and the Euro area should support the USD until the Fed starts raising rates.**

Data does not support the pessimists, who cite a number of indicators in the US (such as falling S&P 500 profits and heightened inventories) and poor Chinese data as indications the cycle is ending. We disagree, as many traditional indicators of a possible recession are not flashing red (see table on right). This is most directly positive for US corporate credit, both investment grade and high yield, which appear priced for recessionary conditions (unjustifiably so, in our view).

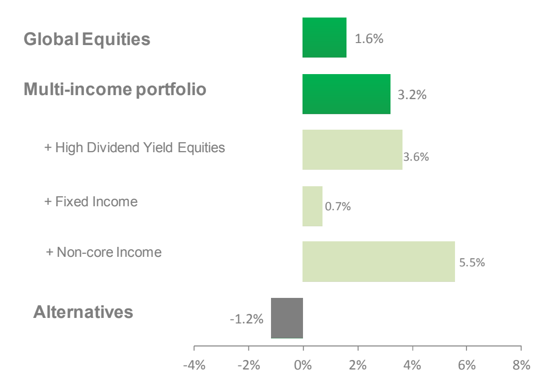
Our preferred asset classes remain good value. Global equities, for instance, fell over 15% through the summer, but have rebounded about 8.5% since. However, most of our preferred asset classes are still significantly cheaper than they were in late March (see chart on right). It is still not too late to add to our W.I.D.E.N. themes.

Implications for investors:

- **Add to our preferred asset classes, starting with diversified income.** The table on page 1 lists all our preferred asset classes, which we would add exposure to today. Diversified income is intentionally at the top of this list as it stands to benefit from slower growth, excessive recession worries and supportive policymakers.
- **Staying exposed to preferred equity markets going into Q4 is key.** The seasonal tailwind is a positive and the break above key technical resistance has further brightened the outlook. We continue to prefer the Euro area and Japan on fundamental grounds (staying FX-hedged). In Asia, we note both Chinese (H-share) and Indian equities have tended to be the strongest performers in Q4, and among the most consistent.
- **Use rebound in Asian currencies to raise USD exposure.** Continued policy divergence (easing in Asia and possible tightening in the US) means we expect the USD to remain supported until at least the first Fed hike. Asian currencies rebounded strongly, but weaker fundamentals mean we are reluctant to chase the rebound.

Our key investment themes rebounded over the past month

*W.I.D.E.N. performance since Outlook 2015 publication**



** For the period 12 December 2014 to 22 October 2015*
Source: Bloomberg, Standard Chartered
** Income basket is as described in the Outlook 2015: A Year to W.I.D.E.N. Investment Horizons, Figure 60*

US economic cycle indicators are mixed – pointing more to mid-cycle weakness than a recession

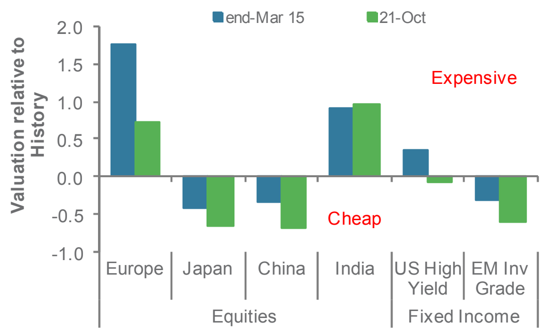
US recession checklist

Indicator	Signal
ISM new orders/inventories ratio	● (red)
S&P 500 profits	● (amber)
High yield spreads	● (amber)
Lead economic indicator (LEI)	● (amber)
Yield curve	● (green)
Labour market	● (green)

Source: Bloomberg, Standard Chartered

Most asset classes still cheaper than March despite market rebound, with one exception

Valuations relative to history



Source: Bloomberg, Standard Chartered

Asset Class	Relative Outlook	Start Date
Cash	UW	Feb-12
Fixed Income	UW	Jan-11
Equity	OW	Aug-12
Commodities	UW	Dec-14
Alternatives	OW	Jun-13

Legend
Start Date - Date at which this tactical stance was initiated
OW - Overweight N - Neutral UW - Underweight
DM - Developed Markets
EM - Emerging Markets

Source: Standard Chartered

	Sub-asset Class	Relative Outlook	Start Date
Cash		UW	Feb-12
Fixed Income	DM IG	UW	Jan-11
	EM IG	OW	Dec-14
	DM HY	OW	Aug-15
	EM HY	N	Dec-14
Equity	US	N	Feb-15
	Euro area	OW*	Jul-13
	UK	UW	Aug-15
	Japan	OW*	Nov-14
	Asia ex-Japan	N	Jul-15
	Other EM	UW	Aug-12
Commodities		UW	Dec-14
Alternatives		OW	Jun-13

**Currency-hedged*

Disclosure Appendix

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